APPENDIX H

8-K 1 form8k_maindocument.htm FORM 8K MARCH 10, 2005 MAIN DOCUMENT

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): March 10, 2005

Encore Capital Group, Inc.
(Exact Name of Registrant as Specified in its Charter)

Delaware	**000-26489**	**48-1090909**
(State or other jurisdiction of incorporation or organization)	(Commission File Number)	(I.R.S Employer Identification No.)

8875 Aero Drive, Suite 200
San Diego, California 92123
(Address of Principal Executive Offices) (Zip Code)

(877) 445-4581
(Registrant's Telephone Number, Including Area Code)

Item 7.01 Regulation FD Disclosure

A copy of a slide presentation given by Carl C. Gregory, III, Vice Chairman and Chief Executive Officer, at the JP Morgan Think Big, Buy Small 5.0 Small Cap conference on March 10, 2005 in Chicago, Illinois, is attached to this Current Report on Form 8-K as Exhibit 99.1 and is incorporated herein solely for purposes of this Item 7.01.

The slide presentation attached to this Current Report on Form 8-K as Exhibit 99.1 contains financial measures for net income excluding one-time benefits and charges and for income before taxes exluding one time benefits and charges that are not calculated in accordance with generally accepted accounting principles in the United States ("GAAP"). The Company has provided a reconciliation in Exhibit 99.2 to this Current Report on Form 8-K of the non-GAAP financial measures for net income excluding one-time benefits and charges to GAAP net income, and for income before taxes excluding one time benefits and charges to GAAP income before taxes.

Management believes that the non-GAAP financial measures for net income and income before taxes provide useful information to investors about the Company's results of operations because the elimination of one-time

benefits and charges that are included in the GAAP financial measures results in enhanced comparability of certain key financial results between the periods presented.

The information in this Current Report on Form 8-K, including the exhibits, is furnished pursuant to Item 7.01 and shall not be deemed "filed" for the purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities under that Section. Furthermore, the information in this Current Report on Form 8-K, including the exhibits, shall not be deemed to be incorporated by reference into the filings of Encore Capital Group, Inc. under the Securities Act of 1933.

Risk Factors

The slide presentation attached to this report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (the "Reform Act"). The words "believe," "expect," "anticipate," "estimate," "project," or the negation thereof or similar expressions constitute forward-looking statements within the meaning of the Reform Act. These statements may include, but are not limited to, projections of revenues, income or loss, estimates of capital expenditures, plans for future operations, products or services, and financing needs or plans, as well as assumptions relating to these matters. For all forward-looking statements, the Company claims the protection of the safe-harbor for forward-looking statements contained in the Reform Act.

The Company's actual results could differ materially from those contained in the forward-looking statements due to a number of factors, some of which are beyond our control. Factors that could affect our results of operations or financial condition and cause them to differ from those contained in the forward-looking statements include:

- Our quarterly operating results may fluctuate and cause our stock price to decrease;
- We may not be able to purchase receivables at sufficiently favorable prices or terms for us to be successful;
- We may not be successful at acquiring and collecting on portfolios consisting of new types of receivables;
- We may not be able to collect sufficient amounts on our receivables portfolios to recover our costs and fund our operations;
- The statistical model we use to project remaining cash flows from our receivables portfolios may prove to be inaccurate, which could result in reduced revenues if we do not achieve the collections forecasted by our model;
- Our industry is highly competitive, and we may be unable to continue to successfully compete with businesses that may have greater resources than we have;
- Our failure to purchase sufficient quantities of receivable portfolios may necessitate workforce reductions, which may harm our business;
- High financing costs currently have an adverse effect on our earnings;
- A significant portion of our portfolio purchases during any period may be concentrated with a small number of sellers;
- We may be unable to meet our future liquidity requirements;
- We may not be able to continue to satisfy the restrictive covenants in our debt agreements;
- We use estimates in our accounting and our earnings will be reduced if actual results are less than estimated;
- We will be required to change how we account for under performing receivable portfolios, which will have an adverse effect on our earnings;
- Our earnings will be reduced by the payment of substantial amounts in income taxes as a result of our full utilization of our federal net operating loss carry-forward in 2003;
- Government regulation may limit our ability to recover and enforce the collection of receivables;

- We are subject to ongoing risks of litigation, including individual or class actions under securities, consumer credit, collections, employment and other laws;
- We may make acquisitions that prove unsuccessful or strain or divert our resources;
- Recent legislative actions and proposed regulations will require corporate governance initiatives, which may be difficult and expensive to implement;
- We may not be able to hire and retain enough sufficiently trained employees to support our operations, and/or we may experience high rates of personnel turnover;
- The failure of our technology and phone systems could have an adverse effect on our operations;
- We may not be able to successfully anticipate, invest in or adopt technological advances within our industry;
- We may not be able to adequately protect the intellectual property rights upon which we rely; and
- We have engaged in transactions with members of our Board of Directors, significant stockholders, and entities affiliated with them; future transactions with related parties could pose conflicts of interest.

Forward-looking statements speak only as of the date the statement was made. They are inherently subject to risks and uncertainties, some of which we cannot predict or quantify. Future events and actual results could differ materially from the forward-looking statements. When considering each forward-looking statement, you should keep in mind the risk factors and cautionary statements found throughout the Company's annual report on Form 10-K as of and for the year ended December 31, 2004 filed with the Securities and Exchange Commission. We do not undertake and specifically decline any obligation to publicly release the result of any revisions to any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events, whether as a result of new information, future events, or for any other reason.

In addition, it is our policy generally not to make any specific projections as to future earnings and we do not endorse projections regarding future performance that may be made by third parties.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ENCORE CAPITAL GROUP, INC.

Date: March 10, 2005

By /s/ Barry R. Barkley

Barry R. Barkley
Executive Vice President,
Chief Financial Officer and Treasurer

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EXHIBIT INDEX

Exhibit	Description
99.1	Slide presentation given by Carl C. Gregory, III, Vice Chairman and Chief Executive Officer, at the JP Morgan Think Big, Buy Small 5.0 Small Cap conference on March 10, 2005 in Chicago, Illinois.
99.2	Reconciliation of non-GAAP information pursuant to Regulation G.

EX-99 25 exhibit992_proforma.htm RECONCILIATION OF GAAP (PROFORMA)

Exhibit 99.2

ENCORE CAPITAL GROUP, INC.
Supplemental Financial Information
Reconciliation of GAAP Net Income and Income Before Taxes to
Net Income and Income Before Taxes Excluding One-Time Benefits and Charges
(In Thousands)

	Quarter Ended March 31,		
	2004	2003	2002
GAAP net income, as reported	$ 6,016	$ 8,166	$ 233
Gain on settlement of litigation[1]	-	(4,376)	-
Net income, excluding one-time benefits	$ 6,016	$ 3,790	$ 233

	Quarter Ended June 30,		
	2004	2003	2002
GAAP net income, as reported	$ 5,595	$ 3,309	$ 692
Benefit from restoration of net deferred tax assets[3]	-	-	(143)
Net income, excluding one-time benefits	$ 5,595	$ 3,309	$ 549

	Quarter Ended September 30,		
	2004	2003	2002
GAAP net income, as reported	$ 5,882	$ 3,104	$ 2,521
Benefit from restoration of net deferred tax assets[3]	-	-	(914)
Net income, excluding one-time benefits	$ 5,882	$ 3,104	$ 1,607

	Quarter Ended December 31,		
	2004	2003	2002
GAAP net income, as reported	$ 5,683	$ 3,841	$ 10,343
Write off of deferred costs[2]	-	528	-
Benefit from restoration of net deferred tax assets[3]	-	-	(8,830)
Net income, excluding one-time (benefits) Charges	$ 5,683	$ 4,369	$ 1,513

Years Ended December 31,

	2004	2003	2002
GAAP income before taxes	$ 38,846	$ 29,423	$ 8,086
Gain on settlement of litigation[1]	-	(7,210)	-
Write off of deferred costs[2]	-	870	-
Income before taxes, exluding one time (benefits) charges	$ 38,846	$ 23,083	$ 8,086

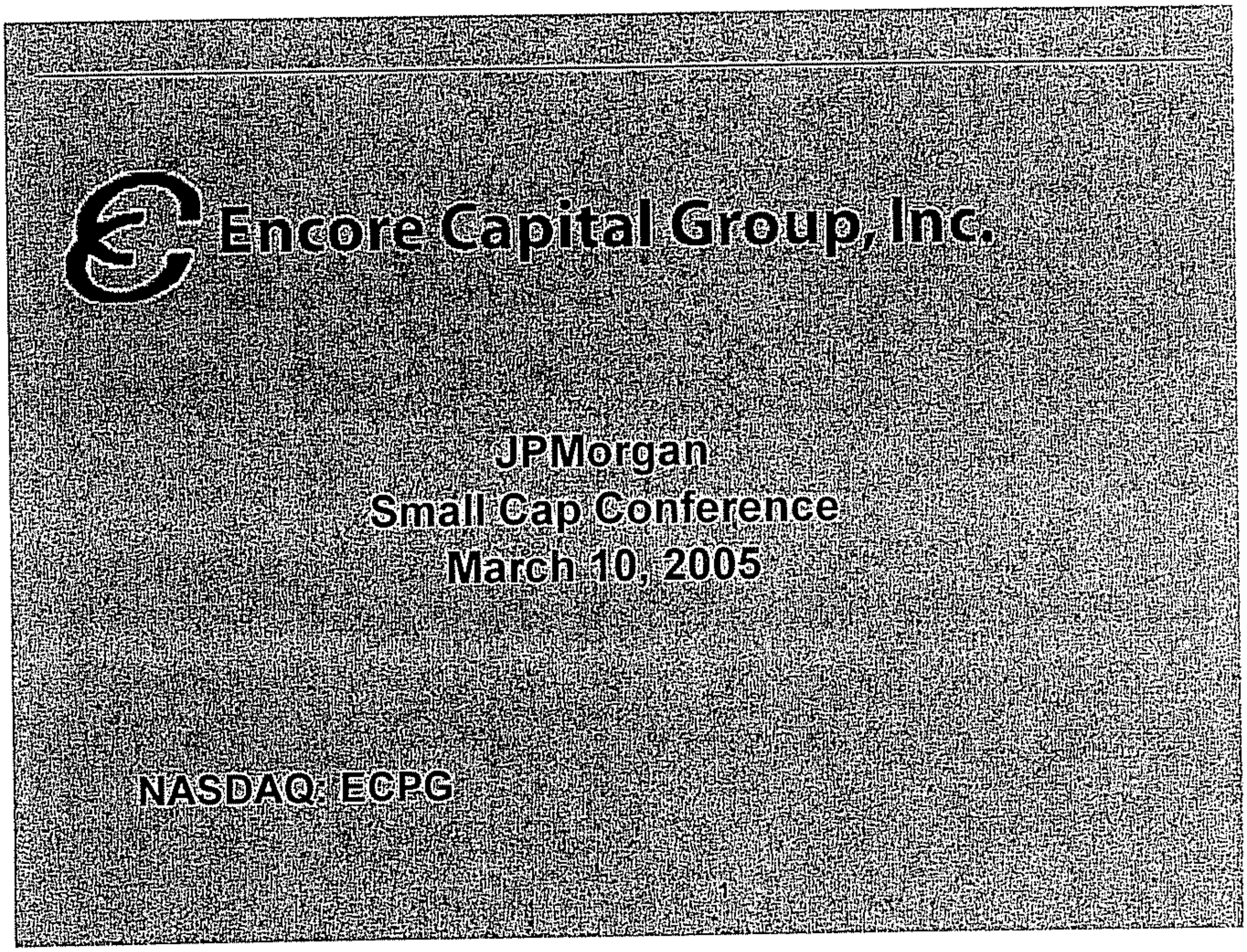
[1]This is the result of a net pre-tax gain of $7.2 million and a net after-tax gain of $4.4 million associated with a litigation settlement during the first quarter of 2003.

[2]This is the result of the pre-tax write-off of $0.9 million and an after-tax write-off of $0.5 million in deferred loans costs and a debt discount associated with the early retirement of our Senior Notes during the fourth quarter of 2003.

[3]This is the result of a change in the valuation allowance associated with our net tax assets during 2002, which resulted in the recognition of a current tax benefit in the amount of $8.8 million, $0.9 million, and $.01 million for the quarters ended December 31, September 30 and June 30, respectively.

EX-99 2 jpmorgan_031005.htm JP MORGAN SMALL CAP CONFERENCE

Exhibit 99.1



CAUTIONARY NOTE ABOUT FORWARD-LOOKING STATEMENTS

ENCORE CAPITAL

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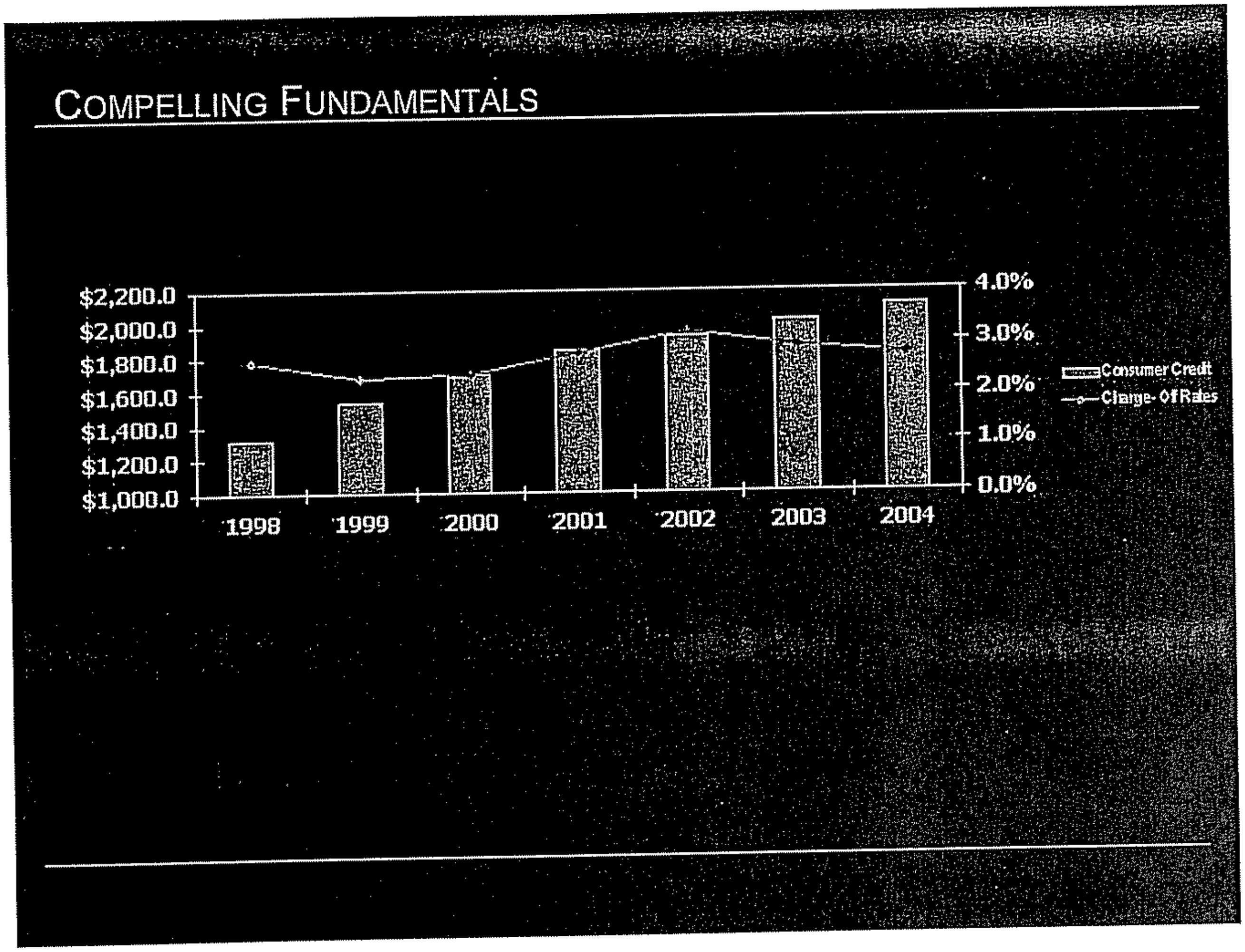
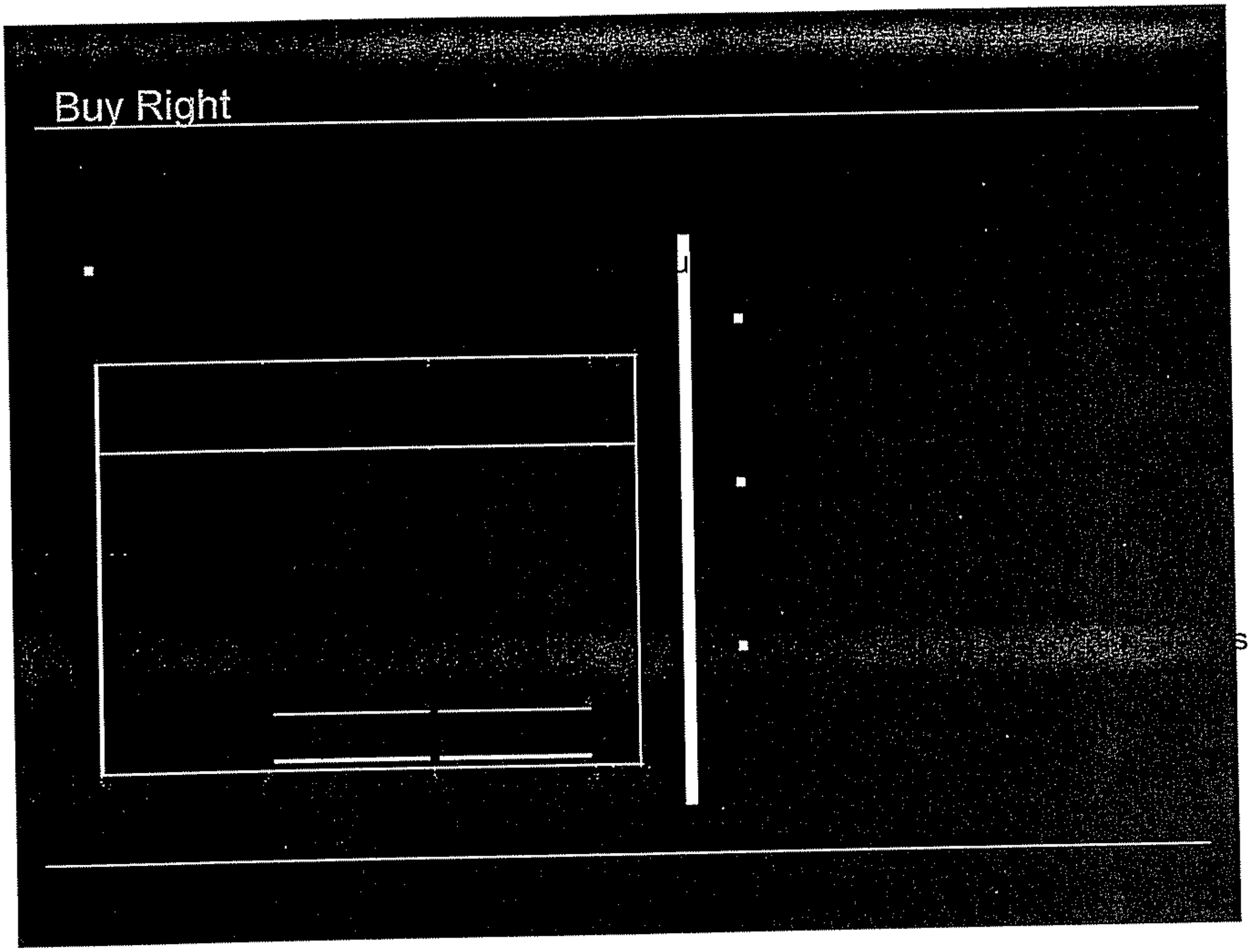
INVESTMENT HIGHLIGHTS

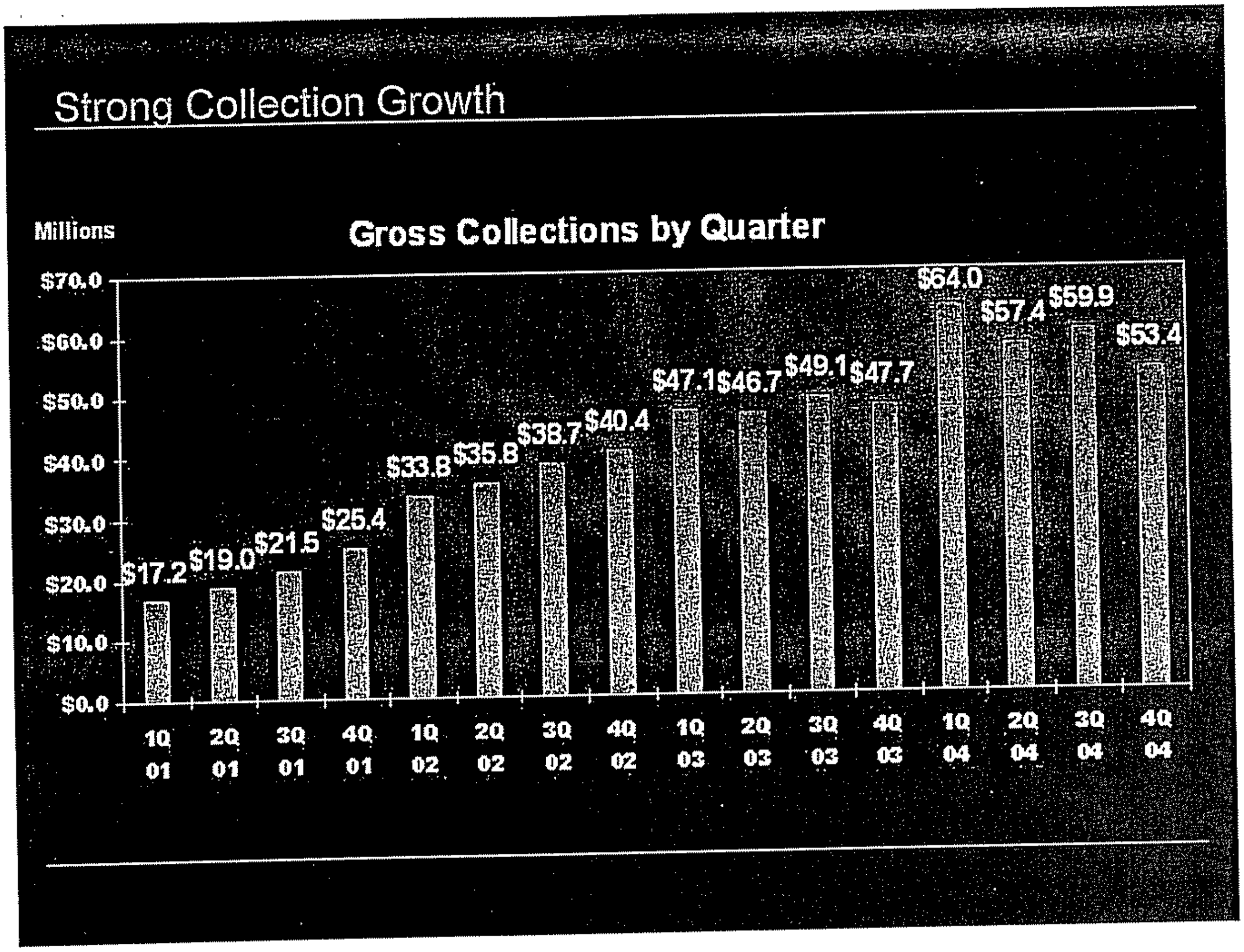
ase

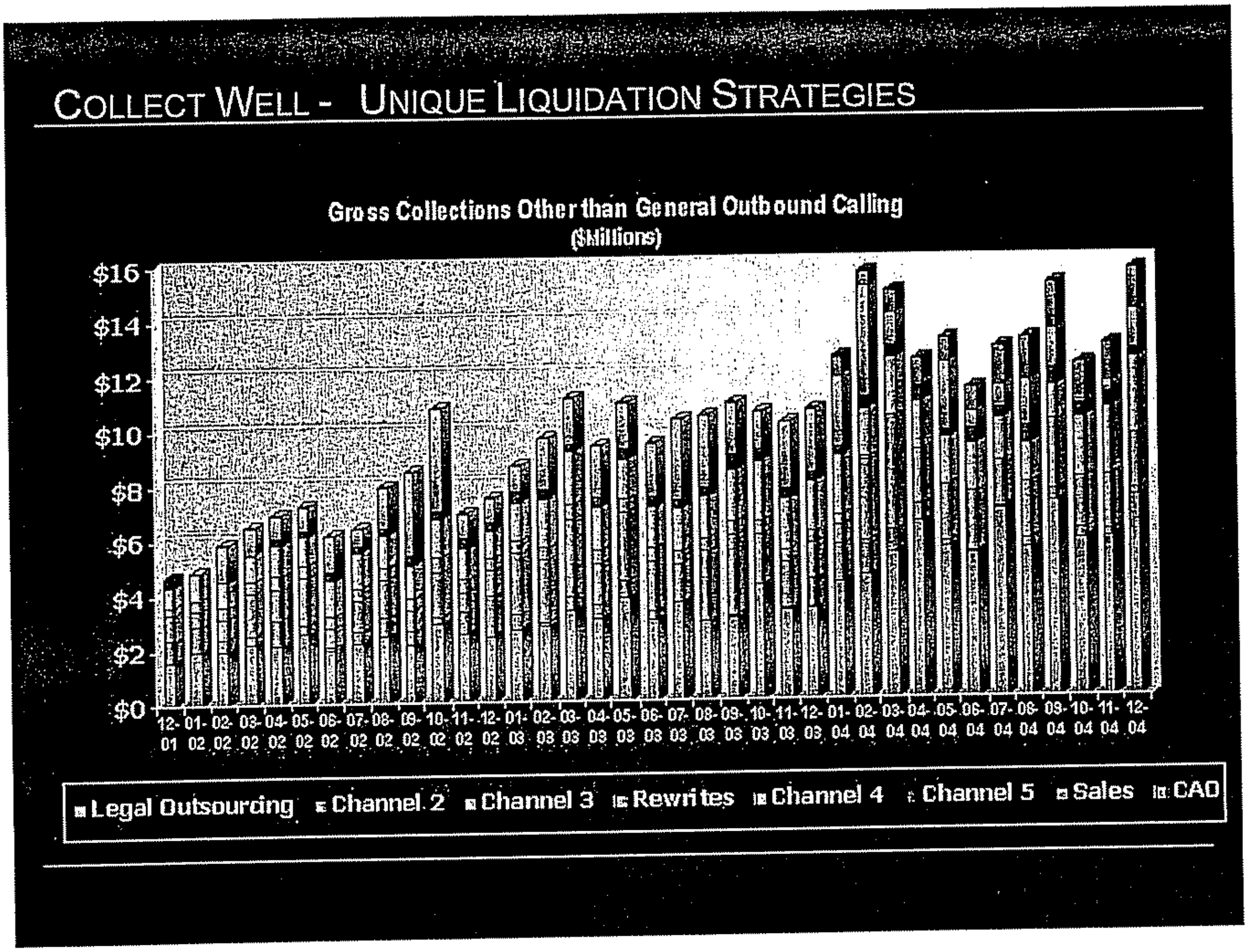

COMPELLING FUNDAMENTALS
$2,200.0
$2,000.0
$1,800.0
$1,600.0
$1,400.0
$1,200.0
$1,000.0
1998
1999
2000
2001
2002
2003
2004
4.0%
3.0%
2.0%
1.0%
0.0%
Consumer Credit
Charge- Of Rates

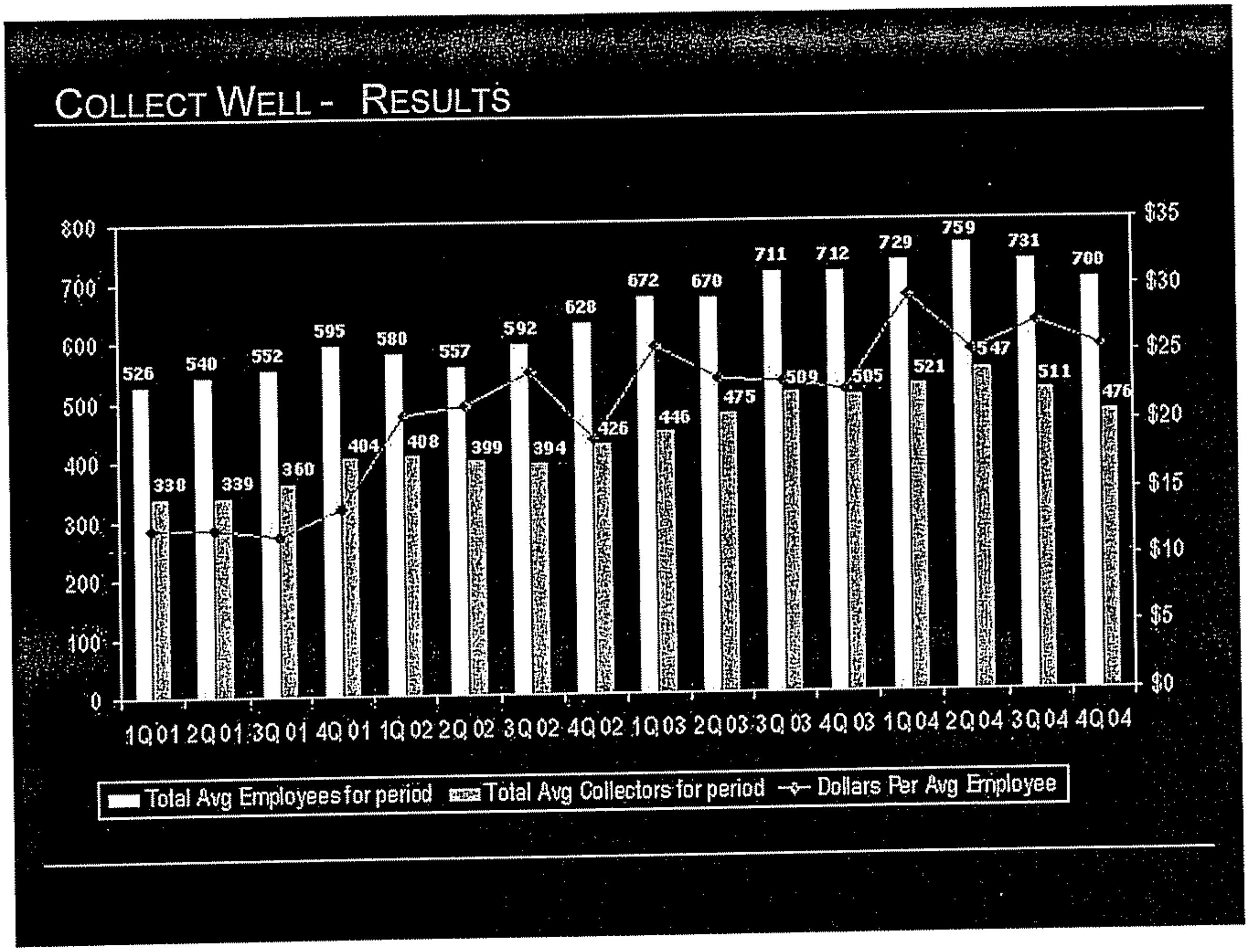
BUSINESS DRIVERS

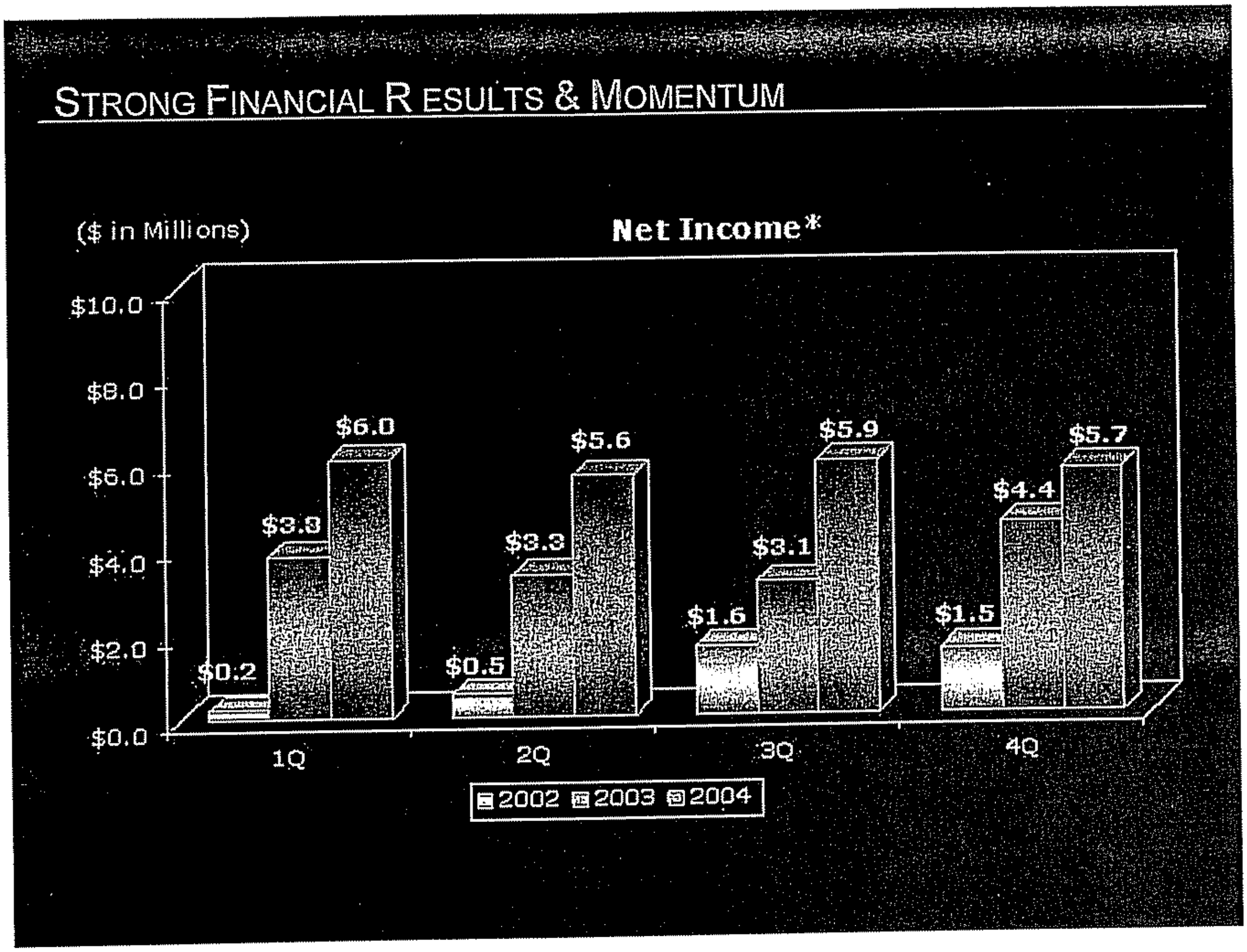
Encore's COMPETITIVE ADVANTAGES


Buy Right

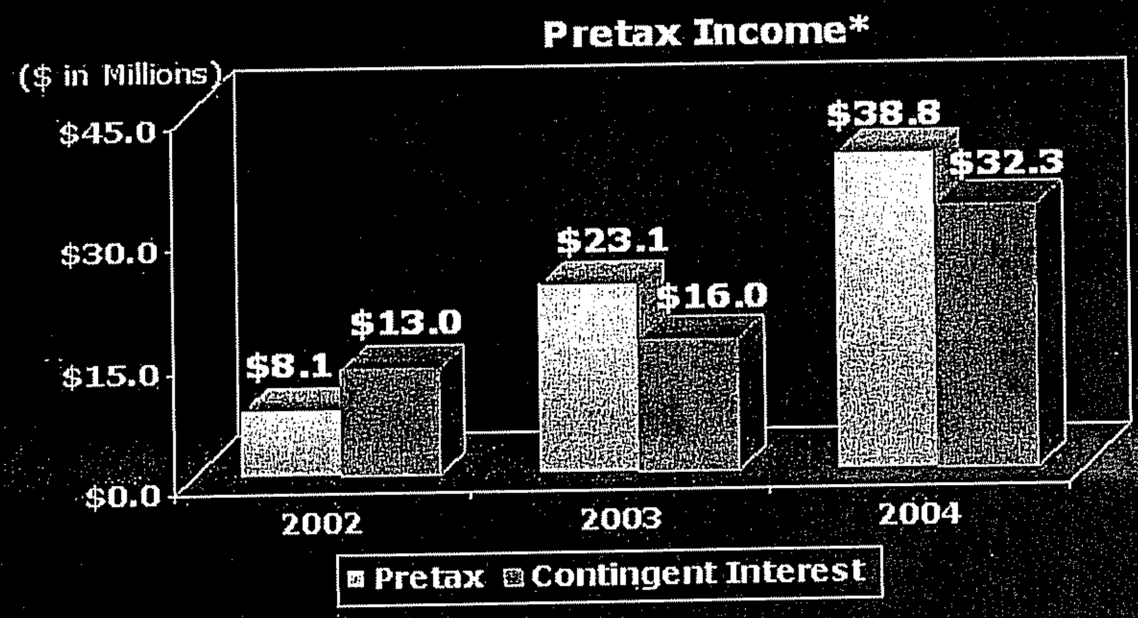

Strong Collection Growth
Millions
Gross Collections by Quarter
$70.0
$60.0
$50.0
$40.0
$30.0
$20.0
$10.0
$0.0
$17.2
$19.0
$21.5
$25.4
$33.8
$35.8
$38.7
$40.4
$47.1
$46.7
$49.1
$47.7
$64.0
$57.4
$59.9
$53.4
1Q 01
2Q 01
3Q 01
4Q 01
1Q 02
2Q 02
3Q 02
4Q 02
1Q 03
2Q 03
3Q 03
4Q 03
1Q 04
2Q 04
3Q 04
4Q 04

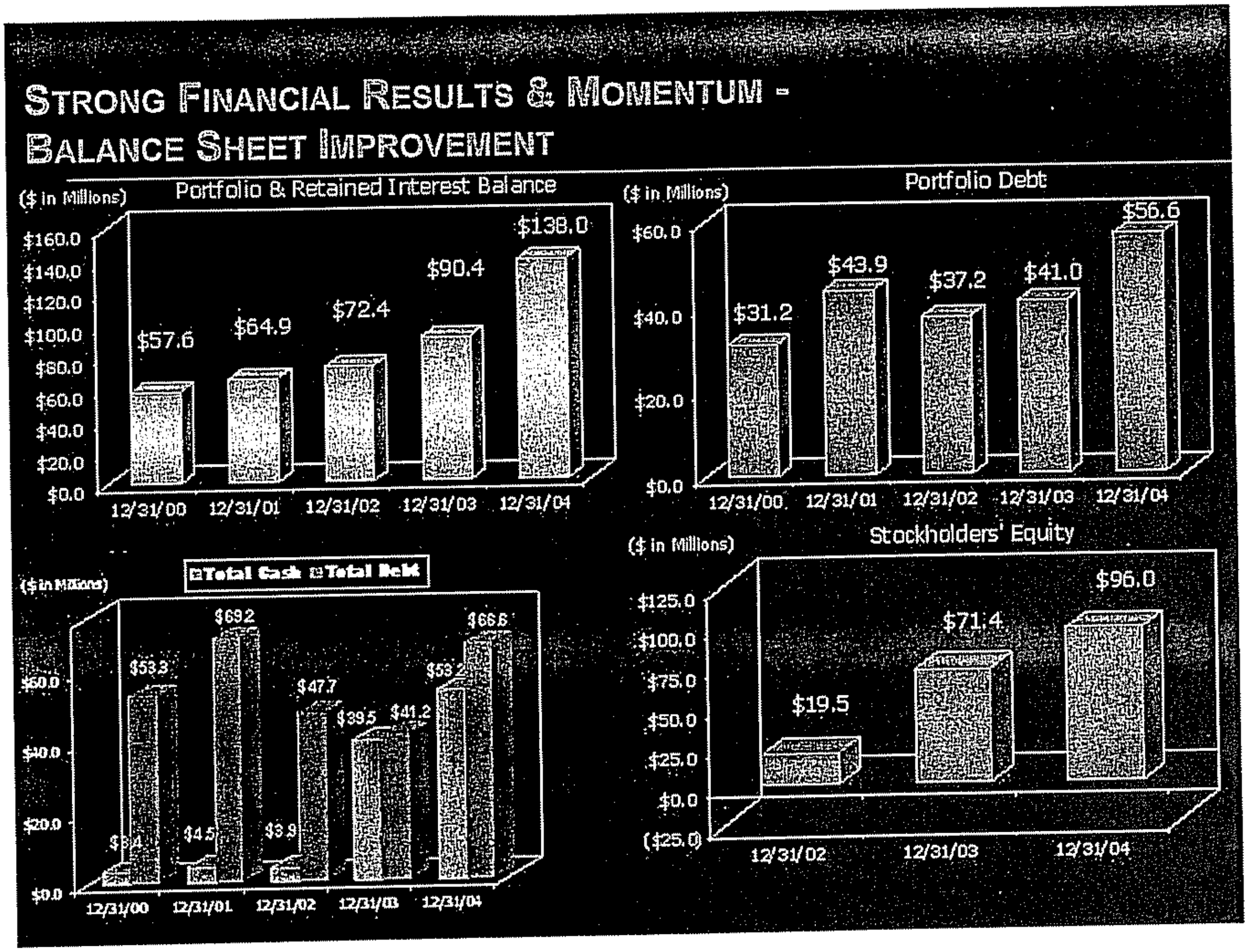

COLLECT WELL - UNIQUE LIQUIDATION STRATEGIES
Gross Collections Other than General Outbound Calling
($Millions)
$16
$14
$12
$10
$8
$6
$4
$2
$0
12-01 01-02 02-02 03-02 04-02 05-02 06-02 07-02 08-02 09-02 10-02 11-02 12-02 01-03 02-03 03-03 04-03 05-03 06-03 07-03 08-03 09-03 10-03 11-03 12-03 01-04 02-04 03-04 04-04 05-04 06-04 07-04 08-04 09-04 10-04 11-04 12-04
Legal Outsourcing
Channel 2
Channel 3
Rewrites
Channel 4
Channel 5
Sales
CAO

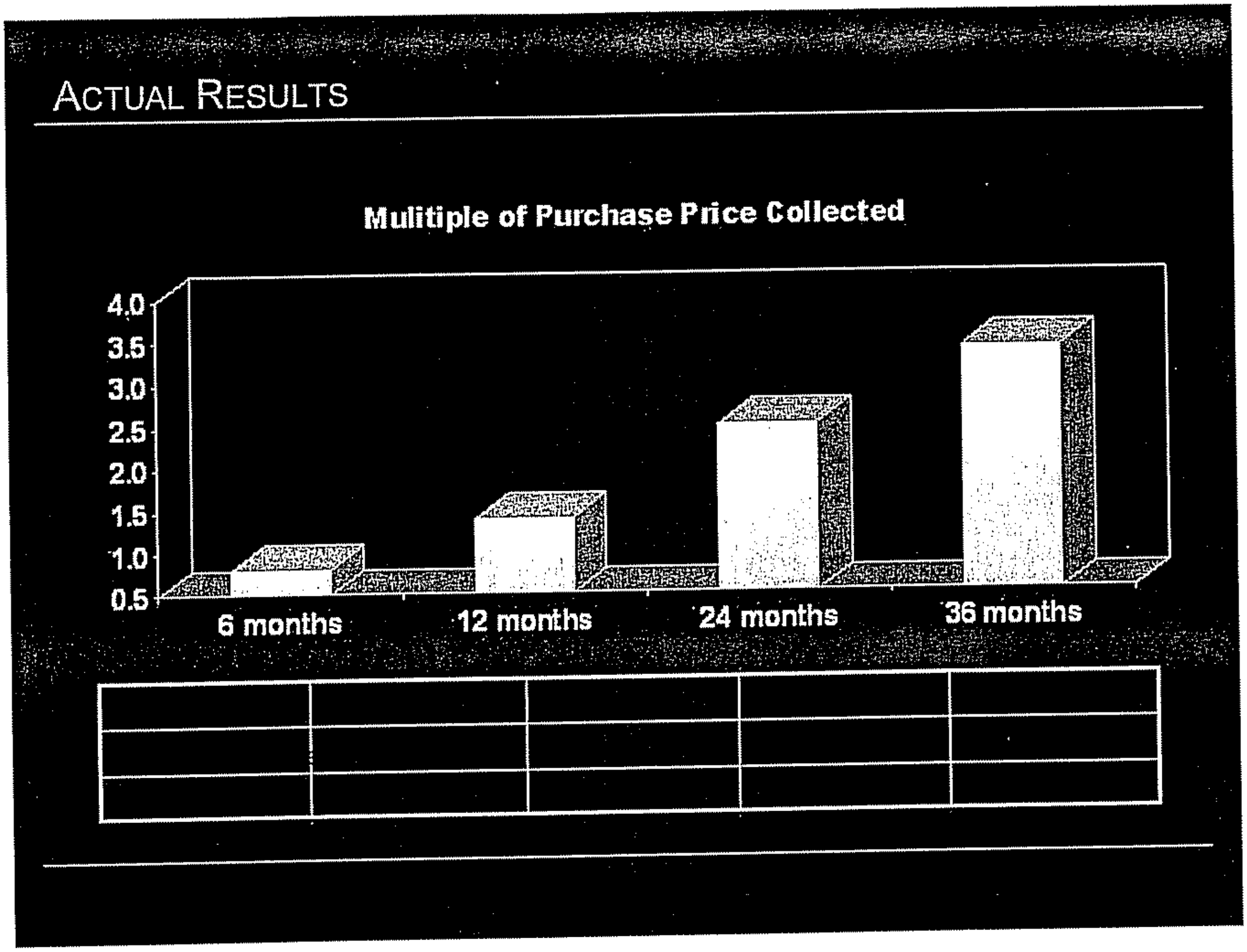

COLLECT WELL - RESULTS
526
540
552
595
580
557
592
628
672
670
711
712
729
759
731
700
338
339
360
404
408
399
394
426
446
475
509
505
521
547
511
476
800
700
600
500
400
300
200
100
0
$35
$30
$25
$20
$15
$10
$5
$0
1Q 01 2Q 01 3Q 01 4Q 01 1Q 02 2Q 02 3Q 02 4Q 02 1Q 03 2Q 03 3Q 03 4Q 03 1Q 04 2Q 04 3Q 04 4Q 04
Total Avg Employees for period
Total Avg Collectors for period
Dollars Per Avg Employee


STRONG FINANCIAL RESULTS & MOMENTUM
($ in Millions)
Net Income*
$10.0
$8.0
$6.0
$4.0
$2.0
$0.0
$0.2
$3.8
$6.0
$0.5
$3.3
$5.6
$1.6
$3.1
$5.9
$1.5
$4.4
$5.7
1Q
2Q
3Q
4Q
2002 2003 2004

STRONG FINANCIAL RESULTS & MOMENTUM




STRONG FINANCIAL RESULTS & MOMENTUM -
BALANCE SHEET IMPROVEMENT
Portfolio & Retained Interest Balance
($ in Millions)
$57.6
$64.9
$72.4
$90.4
$138.0
12/31/00
12/31/01
12/31/02
12/31/03
12/31/04
Portfolio Debt
($ in Millions)
$31.2
$43.9
$37.2
$41.0
$56.6
12/31/00
12/31/01
12/31/02
12/31/03
12/31/04
($ in Millions)
Total Cash
Total Debt
$53.3
$4.5
$69.2
$3.9
$47.7
$39.5
$41.2
$53.2
$66.6
12/31/00
12/31/01
12/31/02
12/31/03
12/31/04
Stockholders' Equity
($ in Millions)
$19.5
$71.4
$96.0
12/31/02
12/31/03
12/31/04


ACTUAL RESULTS
Mulitiple of Purchase Price Collected
4.0
3.5
3.0
2.5
2.0
1.5
1.0
0.5
6 months
12 months
24 months
36 months

Key Metric

	$26,863

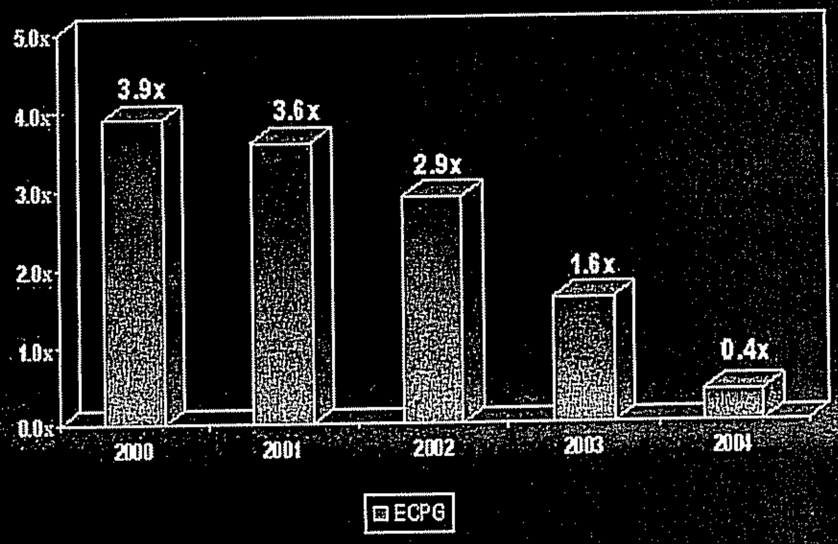
Key Metric

	1.21

Key Metric

	19.3

COMPETITIVE COMPARISON



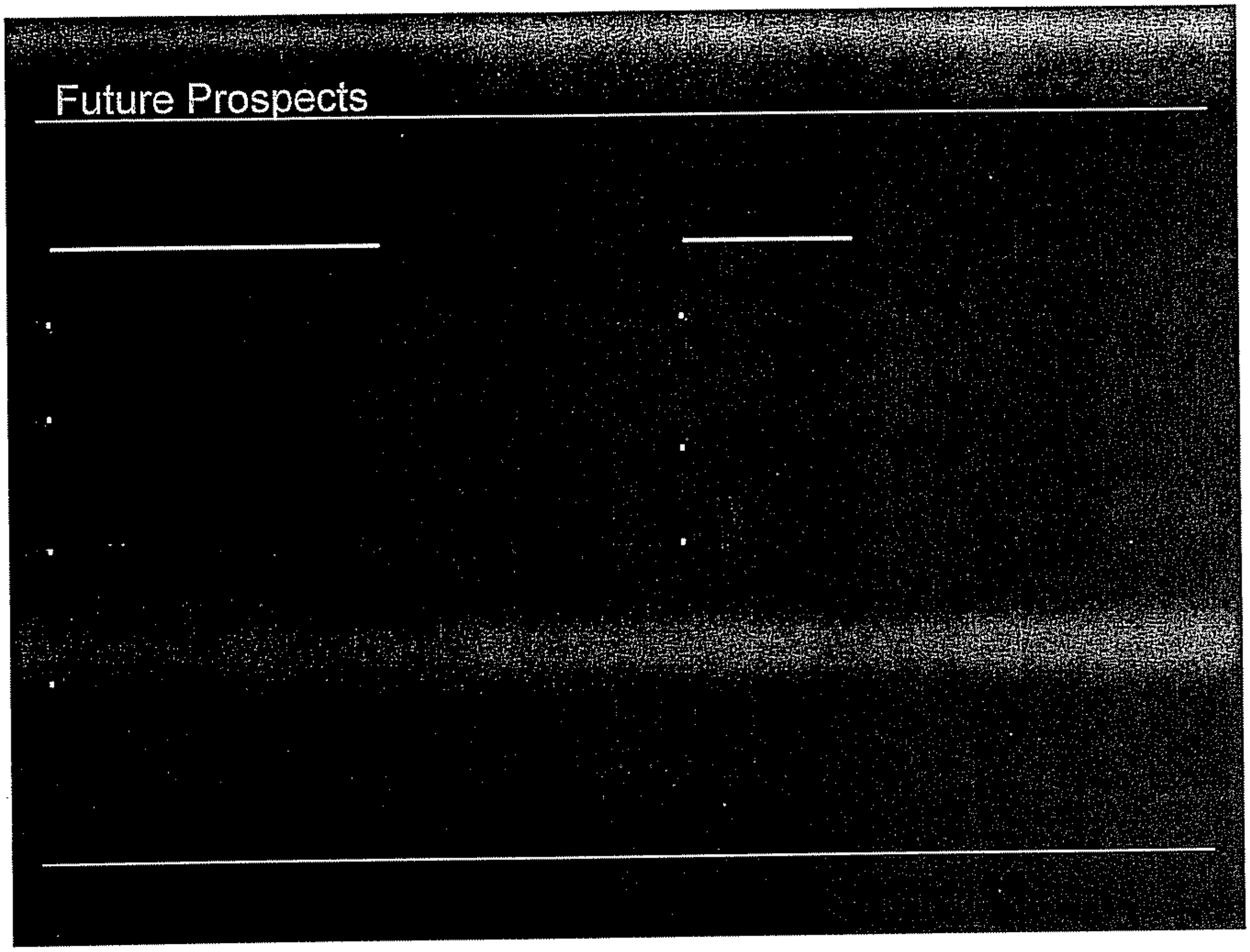
EXPERIENCED MANAGEMENT TEAM

MIP

of

tner

roup


Future Prospects

Encore Capital Group, Inc.

JP Morgan
Small Cap Conference
March 10, 2005

NASDAQ: ECPG

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EX-99 25 exhibit992_proforma.htm RECONCILIATION OF GAAP (PROFORMA)

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APPENDIX I

8-K 1 form8k_maindocument.htm

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): May 9, 2005

Encore Capital Group, Inc.

(Exact Name of Registrant as Specified in its Charter)

Delaware	**000-26489**	**48-1090909**
(State or other jurisdiction of incorporation or organization)	**(Commission File Number)**	**(I.R.S Employer Identification No.)**

8875 Aero Drive, Suite 200
San Diego, California 92123
(Address of Principal Executive Offices) (Zip Code)

(877) 445-4581
(Registrant's Telephone Number, Including Area Code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.02 Disclosure of Results of Operations and Financial Condition

On May 9, 2005 the Company issued a press release announcing its unaudited financial results for the first quarter ended March 31, 2005. A copy of the press release is attached to this Current Report on Form 8-K as Exhibit 99.1 and is incorporated herein solely for purposes of Item 2.02

The information in this Current Report on Form 8-K, including the exhibit, shall not be deemed "filed" for the purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities under that Section. Furthermore, the information in this Current Report on Form 8-K, including the exhibit, shall not be deemed to be incorporated by reference into the filings of Encore Capital Group, Inc. under the Securities Act of 1933.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

ENCORE CAPITAL GROUP, INC.

Date: May 9, 2005

/s/ Paul Grinberg

Paul Grinberg
Executive Vice President,
Chief Financial Officer and Treasurer

EXHIBIT INDEX

Exhibit	Description
99.1	Press release dated May 9, 2005.

EX-99.1 3 pressrelease_50905.htm PRESS RELEASE 5-9-05

EXHIBIT 99.1

Encore Reports a 23% Increase in Fully Diluted Earnings Per Share For the First Quarter of 2005

San Diego – (Business Wire) – May 9, 2005 – Encore Capital Group, Inc. (Nasdaq: ECPG), a leading accounts receivable management firm, today reported consolidated financial results for the first quarter ended March 31, 2005.

For the first quarter of 2005:

- Gross collections were $65.9 million, a 3% increase over the $64.0 million in the same period of the prior year
- Excluding $4.0 million in collections resulting from the sale of the Company's portfolio of rewritten notes in 2004, collections increased 10% over the same period of the prior year
- Total revenues were $50.5 million, a 19% increase over the $42.4 million in the same period of the prior year
- Net income was $7.5 million compared with $6.0 million in the same period of the prior year, a 24% increase
- Earnings per fully diluted share were $0.32, a 23% increase over the $0.26 in the same period of the prior year.

"Our first quarter performance was in-line with our expectations and we have continued to generate solid levels of collections, revenues, and earnings per share," said Carl C. Gregory, III, Vice Chairman and CEO of Encore Capital Group, Inc. "Despite the continuation of the challenging environment for purchases we've spoken about for several quarters, we were pleased with the increased collections. This increase is primarily attributable to the refinement of our consumer level account segmentation strategies, allowing us to penetrate the portfolios beyond our original and updated forecasts. We are also beginning to see the benefits of our reduced contingent interest expense. Our contingent interest was approximately 80% of the level incurred in the first quarter of 2004, and we expect this expense to continue to decline to approximately 60% of the prior year's quarter by the end of 2005. "

First Quarter Financial Highlights

Revenue recognized, as a percentage of collections, was 77% in the first quarter of 2005, compared to 66% in the first quarter of 2004. The increase in the percentage of collections recognized as revenue in the first quarter of 2005 is primarily attributable to deeper penetration of portfolios and the timing of historical purchases.

Total operating expenses for the first quarter of 2005 were $30.3 million, compared with $23.3 million in the first quarter of 2004. The increase in operating expenses is largely attributable to the mix of collections. Collections from sales, for which there are little to no associated costs, were approximately $5.7 million lower in the first quarter of 2005 than they were in the first quarter of 2004. The Company also increased its collections from alternative channels. While the costs from some of these channels are higher, the penetration of the Company's portfolio is deeper, resulting in higher net collections than if only the internal collection sites were utilized.

The Company spent $19.5 million to purchase approximately $530 million in face value of portfolios during the first quarter of 2005, a blended purchase price of 3.68% of face value. All of the portfolios purchased in the first quarter of 2005 were credit card receivables. The Company funded all but $2.1 million of these portfolio purchases from its own cash balance and repaid all outstanding balances on its new credit facility by the end of the

quarter.

Outlook

Commenting on the outlook for the Company, Brandon Black, President and COO, said, "Our disciplined approach to the purchasing market and use of conservative estimates of future collections are two strategies that we believe will allow the Company to produce steady performance in a variety of operating environments. We continue to see improved liquidation of the portfolio, which is directly linked to the development of new proprietary scoring models that more effectively segment consumers into risk classes and the expanded use of alternative collection channels. In addition, our improved financial profile has lowered our interest expense as well as provided us the flexibility and financial strength to explore complementary acquisitions that can enhance our growth opportunities. While the current conditions in the purchasing market present challenges to generating bottom-line growth in the near-term, we believe we have built a solid foundation that can support the profitable growth of the Company over a longer time horizon."

Conference Call and Webcast
The Company will hold a conference call today at 2:00 PM Pacific time / 5:00 P.M. Eastern time to discuss the first quarter results. Members of the public are invited to listen to the live conference call via the Internet.

To hear the presentation, log on at the Investor Relations page of the Company's web site at *www.encorecapitalgroup.com.* For those who cannot listen to the live broadcast, a replay of the conference call will be available shortly after the call at the same location.

About Encore Capital Group, Inc.
Encore Capital Group, Inc. is a systems-driven purchaser and manager of charged-off consumer receivables portfolios. More information on the company can be found at www.encorecapitalgroup.com.

Forward Looking Statements
The statements in this press release that are not historical facts, including, most importantly, those statements preceded by, or that include, the words "may," "believes," "projects," "expects," "anticipates" or the negation thereof, or similar expressions, constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 (the "Reform Act"). These statements may include, but are not limited to, projections of future contingent interest expense, purchase volumes, revenues, income or loss (including our expectations regarding the current environment for and timing of portfolio purchases and the resulting effect on revenue recognition rates and profitability), plans for future operations, products or services, and financing needs or plans, as well as assumptions relating to those matters. For all "forward-looking statements," the Company claims the protection of the safe harbor for forward-looking statements contained in the Reform Act. Such forward-looking statements involve risks, uncertainties and other factors which may cause actual results, performance or achievements of the Company and our subsidiaries to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Factors that could affect the Company's results and cause them to materially differ from those contained in the forward-looking statements include: the Company's ability to purchase receivables portfolios on acceptable terms and in sufficient quantities; the Company's ability to acquire and collect on portfolios consisting of new types of receivables; the Company's ability to recover sufficient amounts on or with respect to receivables to fund operations; the Company's ability to successfully execute acquisitions; the Company's continued servicing of receivables in its third party financing transactions; the Company's ability to hire and retain qualified personnel to recover on its receivables efficiently; changes in, or failure to comply with, government regulations, the costs, uncertainties and other effects of legal and administrative proceedings; and risk factors and cautionary statements made in the Company's Annual Report on Form 10-K as of and for the year ended December 31, 2004. Forward-looking statements speak only as of the date the statement was made. They are inherently subject to risks and uncertainties, some of which the Company cannot predict or quantify. Future events and actual results could differ materially from the forward-looking statements. The Company will not undertake and specifically declines any obligation to publicly release the result of any revisions to any forward-looking statements to reflect events or

circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events, whether as the result of new information, future events or for any other reason. In addition, it is the Company's policy generally not to make any specific projections as to future earnings, and the Company does not endorse any projections regarding future performance that may be made by third parties.

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ENCORE CAPITAL GROUP, INC.

Condensed Consolidated Statements of Operations

(In Thousands, Except Per Share Amounts)

(Unaudited)

	Three Months Ended March 31,	
	2005	**2004**
Revenues		
Revenue from receivable portfolios	$ 50,420	$ 42,091
Servicing fees and other related income	56	296
Total revenues	50,476	42,387
Operating expenses		
Salaries and employee benefits	12,600	11,624
Other operating expenses	4,642	3,422
Collection agency commissions	2,024	672
Cost of legal collections	8,356	5,502
Other general and administrative expense	2,158	1,653
Depreciation and amortization	511	443
Total operating expenses	30,291	23,316
Income before other income (expense) and income taxes	20,185	19,071
Other income (expense)		
Interest expense	(8,087)	(9,282)
Other income	405	155
Total other income (expense)	(7,682)	(9,127)
Income before income taxes	12,503	9,944
Provision for income taxes	(5,051)	(3,928)
Net income	$ 7,452	$ 6,016

Weighted average shares outstanding	22,227	22,020
Incremental shares from assumed conversion of options	1,353	1,423
Adjusted weighted average share outstanding	23,580	23,443
Earnings per share - Basic	$ 0.34	$ 0.27
Earnings per share - Diluted	$ 0.32	$ 0.26

ENCORE CAPITAL GROUP, INC.
Condensed Consolidated Statements of Financial Condition
(In Thousands, Except Par Value Amounts)

	March 31, 2005 (Unaudited)	December 31, 2004 (A)
Assets		
Cash and cash equivalents	$ 15,098	$ 9,731
Investments in marketable securities	16,000	40,000
Restricted cash	4,680	3,432
Investment in receivable portfolios, net	142,069	137,963
Property and equipment, net	3,280	3,360
Deferred tax assets, net	78	361
Other assets	6,230	6,295
Total assets	$ 187,435	$ 201,142
Liabilities and Stockholders' Equity		
Liabilities		
Accounts payable and accrued liabilities	$ 14,273	$ 17,418
Accrued profit sharing arrangement	19,560	20,881
Income taxes payable	2,720	-
Notes payable and other borrowings	46,139	66,567
Capital lease obligations	214	261
Total liabilities	82,906	105,127
Commitments and contingencies		
Stockholders' equity		
Preferred stock, $.01 par value, 5,000 shares authorized, and no shares issued and outstanding	-	-
Common stock, $.01 par value, 50,000 shares authorized, and 22,259 shares and 22,166 shares issued and outstanding as of March 31, 2005 and December 31, 2004, respectively	223	222
Additional paid-in capital	67,928	66,788
Accumulated earnings	36,286	28,834
Accumulated other comprehensive income	92	171

Total stockholders' equity	104,529	96,015
Total liabilities and stockholders' equity	$ 187,435	$ 201,142

(A) Derived from the audited consolidated financial statements as of December 31, 2004

ENCORE CAPITAL GROUP, INC.
Condensed Consolidated Statements of Cash Flows
(Unaudited, In Thousands)

	Three Months Ended March 31,	
	2005	**2004**
Operating activities		
Gross collections	$ 65,853	$ 63,996
Less:		
Amounts collected on behalf of third parties	(274)	(962)
Amounts applied to principal on receivable portfolios	(15,160)	(20,943)
Servicing fees	56	296
Operating expenses		
Salaries and employee benefits	(15,769)	(12,705)
Other operating expenses	(4,329)	(1,656)
Cost of legal collections	(8,356)	(5,502)
Collection agency commissions	(2,024)	(672)
Other general and administrative	(2,519)	(1,583)
Interest payments	(1,151)	(538)
Contingent interest payments	(8,205)	(5,793)
Other income	405	190
Increase in restricted cash	(1,248)	(4,525)
Income taxes	(1,490)	(1,410)
Net cash provided by operating activities	5,789	8,193
Investing activities		
Purchases of receivable portfolios	(19,523)	(17,248)
Collections applied to principal of receivable portfolios	15,160	20,943
Proceeds from sales of marketable securities	24,000	1,000
Proceeds from put-backs of receivable portfolios	258	356
Purchases of property and equipment	(431)	(502)
Net cash provided by investing activities	19,464	4,549
Financing activities		
Proceeds from notes payable and other borrowings	2,088	6,952
Repayment of notes payable and other borrowings	(22,516)	(20,474)
Proceeds from exercise of common stock options	588	36
Repayment of capital lease obligations	(46)	(65)
Net cash used in financing activities	(19,886)	(13,551)

Net increase (decrease) in cash		5,367		(809)
Cash, beginning of period		9,731		8,612
Cash, end of period	$	15,098	$	7,803

ENCORE CAPITAL GROUP, INC.

Condensed Consolidated Statements of Cash Flows (cont.) Reconciliation of Net Income to Net Cash Provided by Operating Activities

(Unaudited, In Thousands)

	Three Months Ended March 31,			
		2005		2004
Net income	$	7,452	$	6,016
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization		511		443
Amortization of loan costs		44		11
Tax benefits from stock option exercises		526		261
Amortization of stock based compensation		27		27
Deferred income tax expense (benefit)		283		(3,716)
Changes in operating assets and liabilities				
Decrease in restricted cash		(1,248)		(4,525)
Increase in income taxes payable		2,744		-
Increase in other assets		(5)		(219)
(Decrease) increase in accrued profit sharing arrangement		(1,321)		2,837
(Decrease) increase in accounts payable and accrued liabilities		(3,224)		7,058
Net cash provided by operating activities	$	5,789	$	8,193

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